

# API-119: Advanced Macroeconomics for the Open Economy I, Fall 2024

## Course Syllabus: prospectus, schedule and readings

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	Office hours: Mondays 3:30-6:00 pm and by appointment	
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**Times:** Lectures: Mon./Wed, 1:30-2:45pm<sup>1</sup> WEX 436.  
Review Sessions: Fridays 1:30-2:45 or 3:00-4:15 pm <sup>2</sup>  
Final exam: Friday, Dec.13, 2:00-5:00 pm.

### Prospectus

**Course Description:** API-119 is the first in the two-course sequence on Macroeconomics in the MPA/ID program. It particularly emphasizes the international dimension. The general perspective is that of economies that are small and open, defined as those for whom world income, world inflation and world interest rates can be taken as given, and possibly the terms of trade as well. Questions covered are monetary, fiscal, and exchange rate policy, and the determination of the current account balance, inflation, and GDP relative to potential. Models of devaluation include one that focuses on the price of internationally traded goods relative to non-traded goods. One theme is the implications of increased integration of global financial markets. Another is countries' choice of monetary regime, particularly the degree of exchange rate flexibility. Applications are to Emerging Market and Developing Economies. They include commodity-exporting countries. (Some financial topics -- including exchange rate overshooting, speculative attacks, portfolio diversification and debt crises -- will be covered in the first half of Macro II, API-120, in February-March.)

**Nature of the approach:** The course is largely built around analytical models. Although real-world examples will appear throughout, we rely heavily on theoretical and econometric analysis, as is customary in economics classes. Having said that, the course largely leaves to the successor course, API 120, the mathematical derivation of behavioral equations from first principles of individuals' optimization of intertemporal utility.

**Who is expected to take the course:** This course, like Advanced Macroeconomics for the Open Economy II (API 120), is a required component of the core sequence in the MPA in International Development program. Some students may one day be making policy recommendations or decisions in a central bank, economics ministry, or international financial institution. Some have taken advanced macro before, but are missing the real-world intuition behind theory. Most other students are less macro-oriented, but want to understand what it is all about. Many are happy if the course leaves them better able to read the *Economist* or *Financial Times*. In addition to MPA/IDs, two or three other students are sometimes admitted by permission of instructor.

**Required tools:** Besides macroeconomics, some knowledge of basic microeconomics is presumed. Analytical tools to be used include especially calculus.

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<sup>1</sup>/ 1<sup>st</sup> two lectures: Wed., Sept. 4; and Fri., Sept. 6.

<sup>2</sup>/ 1<sup>st</sup> review session: Wed., September 6, 2024.

## Weekly structure of the course:

A standard week will consist of two units. Each unit will consist of:

- (i) required readings, plus other recommended readings, including applications from the media;
- (ii) the live lecture from the professor (we take role; class participation counts for the grade);
- (iii) an asynchronous component, which includes one or more mini-lectures recorded by the professor plus short quizzes on all the material for that unit. Quizzes following Monday lectures are due that Friday at 8:30 am and quizzes following Wednesday lectures are due the next Monday at 8:30 am. Late quizzes will be marked down 1 point per day. Before each live lecture, students should complete the required reading for the new unit. Ideally, they will also have completed the asynchronous module for the preceding lecture.

In addition,

- (a) Friday review session is strongly recommended.
- (b) There will be 6 problem sets, due Monday, 10:00 am. Late problem sets are not accepted. (We post the answers.)

The entire teaching team will also hold office hours, TBA. Students should make heavy use of [mpaid.macro@gmail.com](mailto:mpaid.macro@gmail.com), sending any and all questions to it. The teaching team will monitor it frequently. The response to a student's question may be a directly e-mailed answer, a decision to dedicate somebody's office hours to the topic in question, or the arrangement of a special bilateral appointment.

**Grading:** 20%: 6 Problem sets (Grade based on best 5 out of 6)  
15%: Quizzes \*  
20%: Mid-term exam  
35%: Final exam  
10%: Class participation.

\* Quizzes are to be taken after each live lecture, as part of the Asynchronous Module. Do not get behind in the quizzes.

**Problem Set**                      **Due date (10:00 am). No late problem sets. (We post the answers.)**

- |    |                                    |
|----|------------------------------------|
| 1. | Monday, September 16               |
| 2. | Mon., Sept. 30                     |
| 3. | Mon., October 7                    |
|    | <i>Midterm exam: Wed., Oct. 16</i> |
| 4. | Mon., Oct. 28                      |
| 5. | Mon., November 18                  |
| 6. | Mon., Nov. 25                      |

*Final exam: Fri., Dec. 13, 2:00 p.m.-5:00 pm.*

Please note the date/time of the final exam. Do not make any conflicting travel plans.

**Regrading policy:** On receiving your exam or problem set score, look carefully through the suggested answers and comments provided. Students who wish to submit their answer sheets for re-grading should, within two weeks, write a detailed email explaining their reason.

**Academic integrity:** Students must take quizzes and exams on their own, without discussion with other students. They are responsible for knowing what is in [the Academic Code](#), including this: “Cheating on assignments or exams ... violates the standards of our community, as well as the standards of the wider world of learning and affairs...If students submit work either not their own or without clear attribution to the original source, including but not limited to the Internet, they will be subject to discipline by the HKS Administrative Board, ranging from a warning to required withdrawal or expulsion from HKS.”

You are not permitted to use ChatGPT or other generative AI in this course.

## Readings:

For each lecture, there are typically two double-starred or triple-starred readings, which students are required to read *in advance of the lecture*. You may be called upon in lecture. The second half of this syllabus lists the readings in full. Readings are either scholarly articles, textbook chapters, or short news media stories. The readings below and on the Canvas course page contain links. If links to journal articles become broken, you can find articles by searching [Harvard library’s E-Journals](#).

**Required textbooks:** The main textbook is the second half of *World Trade and Payments*, R. Caves, J. Frankel, & R. Jones (10th edition, Addison-Wesley Longman, 2007), which is abbreviated *WTP* on the reading list. Chapters are available online at the Canvas course page and also [on my Publications page](#).

The reading list also includes five excerpts from Filipe Campante, Federico Sturzenegger and Andres Velasco (abbreviated [CSV](#)), *Advanced Macroeconomics: An Easy Guide*, 2021 (LSE Press). The second half of API-120 in the spring will use this text extensively. Available [on-line](#).

**Textbooks for further background:** Students should have already studied basic or intermediate macroeconomics. The necessary pre-requisite background in macroeconomics at a basic level is represented by Greg Mankiw, *Macroeconomics*, e.g., 10th ed., 2019. At a considerably more advanced level than *WTP*, two recommended texts, in addition to CSV, are: Maurice Obstfeld and Kenneth Rogoff, *Foundations of International Economics* (MIT Press, 1996); and Carlos Végh, *Open Economy Macroeconomics in Developing Countries* (MIT Press, 2013). For money and inflation, in particular, consult “Monetary Policy,” Chapter 12, of David Romer’s *Advanced Macroeconomics*, 5<sup>th</sup> ed. (McGraw Hill, 2019).

**News stories:** The reading list also includes media reports that serve as real-world applications for what you learn, particularly in *The Economist* and *Financial Times*. Their websites typically offer a few free downloads per month. But HKS and the Harvard Library subscribe and offer students access to a wide array of searchable news articles. Students can access these publications by establishing an account via the Harvard Library catalogue [here](#).

For the [Financial Times \(Harvard Login\)](#), you can register for a special "premium" account on the *FT.com* website by clicking on the link and using your Harvard e-mail address. (After the initial registration process, you can use your ID and password to access the *FT.com* web site directly. If you need to re-register, follow the link but then click the Sign In button instead of filling out the registration form.) If you have trouble, look for additional instructions for accessing select resources through the Knet database.

# ***API-119: Advanced Macroeconomics for the Open Economy I***

**Prof. Jeffrey A. Frankel, Harvard Kennedy School**

## **Topics and schedule:**

Due dates for  
Problem Sets:

### **I. REVIEW OF BASIC MACRO CONCEPTS**

1. GDP  
(9/4) Lecture 1: GDP accounting  
Asynchronous module 1: Measuring potential output
2. More identities  
(9/6) Lecture 2: Balance of payments accounting  
Asynchronous module 2: (i) National Saving identity, (ii) Consumption & saving.

### **II. DEVALUATION AND THE TRADE BALANCE**

3. Trade elasticities  
(9/9) Lecture 3: The Marshall-Lerner condition  
Asynchronous mod. 3: Alternate assumptions of goods pricing in open economies
4. The trade balance in practice  
(9/11) Lecture 4: Empirical evidence on the elasticities  
Async.mod. 4: (i) A delayed J-curve, (ii) Overview of models of external balance.  
\_\_\_\_\_ PS 1 (Elasticities approach to TB) due 9/16

### **III. THE MUNDELL-FLEMING MODEL**

5. The open-economy Keynesian model  
(9/16) Lecture 5: The open-economy Keynesian multipliers  
Async.mod. 5: Goals (internal & external balance) & instruments
6. Meet the Mundell-Fleming model  
(9/18) Lecture 6: The Mundell-Fleming model with a fixed exchange rate  
Async.mod. 6: The Taylor Rule
7. Unconventional Monetary Policies  
(9/23) Lecture 7: Monetary policy at the Zero Lower Bound  
Async.mod. 7: The real interest rate in the model
8. International reserve flows  
(9/25) Lecture 8: Reserve flows in the Mundell-Fleming model  
Async.mod. 8: The example of China's sterilization of inflows, 2003-08  
\_\_\_\_\_ PS2 (Mundell-Fleming with fixed rate) due 9/30
9. Mundell-Fleming with a floating rate  
(9/30) Lecture 9: The model with a flexible exchange rate  
Async.mod. 9: The example of Japan's 2012-15 monetary expansion
10. Mundell Fleming with perfect capital mobility  
(10/2) Lecture 10: The model when the country loses control over its interest rate  
Async.mod. 10: The Impossible Trinity.  
\_\_\_\_\_ PS 3 (Mundell-Fleming with a floating rate) due 10/7

#### IV. INFLATION

11. AD, AS, and Inflation  
(10/7) Lecture 11: Aggregate Demand & Aggregate Supply  
Async.mod. 11: (i) Chinese overheating, 2006-08, (ii) The Phillips Curve & the labor market
12. The rational expectations attack on activist monetary policy  
(10/9) Lecture 12: Rational expectations & dynamic inconsistency  
Async.mod. 12: (i) The case against activist policy, (ii) Why might high inflation hurt growth?  
*[October 14: Columbus Day holiday]*
13. (10/16) *MIDTERM EXAM*
14. How to achieve low-inflation credibility  
(10/21) Lecture 14: Addressing dynamic inconsistency of monetary policy  
Async.mod. 14: (i) Rules vs. discretion, (ii) The decline of inflation, 1980-2020
15. Seigniorage and hyperinflation  
(10/23) Lecture 15: The theory of seigniorage  
Async.mod. 15 (i) Public borrowing, (ii) Venezuela case, (iii) Can seigniorage explain hyperinflation?  
\_\_\_\_\_ PS4 (inflation bias) due 10/28
16. Case Study: Internal & external balance in China  
(10/28) Lecture 16: Macroeconomics in China, 2003-24.  
Async.mod. 16: (i) The Swan Diagram applied to China, (ii) Macro-prudential policies.

#### V. INTEGRATION OF GOODS MARKETS

17. How well-integrated are goods markets?  
(10/30) Lecture 17: (i) Gains from trade. (ii) Does arbitrage enforce PPP?  
Async.mod. 17: Barriers to international integration
18. What explains failures of Purchasing Power Parity?  
(11/4) Do sticky prices give rise to PPP deviations?  
Async.mod. 18: Big Mac PPP
19. The Balassa-Samuelson relationship  
(11/6) Lecture 19: The role of non-traded goods  
Async.mod. 19: Case -- Was the renminbi "undervalued"?  
*[Nov. 11: Veteran's Day holiday]*

#### VI. SMALL OPEN ECONOMIES

20. The Salter-Swan SOE model  
(11/13) Lecture 20: Devaluation in small open economies  
Async.mod.20: [Adjustment in the Salter-Swan model](#)

\_\_\_\_\_ PS 5 (PPP) due 11/18

21. Currency mismatch, balance sheets & contractionary devaluations  
(11/18) Lecture 21: Contractionary effects of devaluation  
Async.mod. (21): Did EMEs conquer original sin after 2001?  
\_\_\_\_\_ PS 6 (SOE application) due 11/25
22. Introduction to crises in Emerging Market Economies (EMEs)  
(11/13) Lecture 22: Sudden stops  
Async.mod.22: Managing outflows
23. The Dutch Disease  
(11/15) Lecture 23: Macroeconomic consequences of a natural resource boom  
Async.mod.: Governments often over-spend in boom times
24. *EXTRA LECTURE, joint with Dev 401*: The Natural Resource Curse  
(11/16) 12:00-1:15 pm -- Lecture 24: Pitfalls of a large primary sector  
Async.mod.: Pro-cyclicality.

## VII. EXCHANGE RATE REGIMES

25. Balancing pros and cons  
(11/20) Lecture 25: Advantages of fixing; Advantages of floating  
Async.mod. 25: Weighing up; Optimum Currency Areas  
[11/22-11/26 Thanksgiving holiday]
26. Exchange Rate Regimes in Developing Countries  
(11/27) Lecture 26: Real shocks; intermediate regimes

**Friday, Dec. 13, 2:00 pm-5:00 pm.      FINAL EXAM**

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## READING ASSIGNMENTS

\* = recommended reading

\*\* = required to read, before lecture

\*\*\* = required strongly to read, before lecture. You may be called upon.

### I REVIEW OF MACROECONOMIC CONCEPTS

#### 1. (9/4) GDP accounting

Campante, Sturzenegger & Velasco (CSV), [4.1, pp 41-42](#); [7.1.1, pp. 87-88: Growth acctg.](#) \*

Paul Krugman, 1994, "[The Myth of the Asian Miracle](#)," *Foreign Affairs*, 73, 6, 62-78. \*\*

"[China's economy is more Soviet than you think](#)," *Economist*, Dec.15, 2018. \*\*

W.Chen, X.Chen, Chang-Tai Hsieh & Z.Song, 2019, "[A Forensic Examination of China's National Accounts](#)," *Brookings Papers on Ec. Activity*, spring, 77-141. [NBER WP 25754](#).

Arvind Subramanian, 2019, "Validating India's GDP Growth Estimates," July, [CID WP 357](#). Reported in "[The Indian growth fable: A former official casts doubt on India's GDP figures](#)," *The Economist*, June 15, 2019.

"[China's economy: The real deal](#)," *The Economist*, Oct. 17, 2020. \*

"[Real-Time Economic Indicators Help Better Track Activity in Africa](#)," IMF blog, May 27, 2022. \*

#### 2. (9/6) Balance of payments accounting

Caves, Frankel & Jones, [World Trade and Payments \(WTP\), 2007, Chapters 15 & 17.2](#) \*\*\*

"China Concerns: "[Tourism deficit leaves current account vulnerable to trade shock](#)," *Financial Times*, June 14, 2018.

"[Pakistan's economy: In need of re-stitching](#)," *The Economist*, June 16, 2018.

"[A milder infection: The Philippine peso is the champion of emerging-market currencies](#)," *The Economist*, July 23, 2020. \*\*

### II. DEVALUATION AND THE TRADE BALANCE

#### 3. (9/9) The Marshall-Lerner condition

Caves, Frankel & Jones, *WTP*, [Chapter 16.1 \(pp.291-97\) & Supplemt \(pp. S43-S44\)](#). \*\*\*

#### 4. (9/11) The trade balance in practice.

Caves, Frankel & Jones, *WTP*, [Chapter 16.2 \(pp.297-301\)](#). \*\*\*

Jaime Marquez, 2002, "[Income and Price Effects of Asian Trade](#)," pp.1-7. Chapter in his *Estimating Trade Elasticities (Springer)*, pp. 91-97. \*\*

Dani Rodrik, 2008, "[The Real Exchange Rate and Economic Growth](#)," *Brookings Papers on Economic Activity*, No.2, fall, 365-412.

"[Africa's two most populous economies brave tough reforms](#)," *The Economist*, August 8, 2024.

### III. THE MUNDELL-FLEMING MODEL

5. (9/16) The open-economy Keynesian model

Caves, Frankel and Jones [WTP, Chapters 17.1, 17.3 & 18.1-18.2](#) \*\*\*

Olivier Blanchard and Daniel Leigh, 2014, "[Growth Forecasts Errors and Fiscal Multipliers](#)," *American Economic Review*, 103, no.3, pp. 117-120. Condensed from [IMF WP 13-1](#). \*\*

D.Egger, J.Haushofer, E.Miguel, P.Niehaus, and M.Walker, 2022, "[General equilibrium effects of cash transfers: experimental evidence from Kenya](#)," *Econometrica* 90, no. 6: 2603-2643. [NBER WP no. 2600](#).

"[US stimulus and strong remittances give boost to Mexico](#)," *Financial Times*, June 17, 2021.

6. (9/18) Mundell-Fleming model of monetary & fiscal policy with a fixed exchange rate

[Caves, Frankel & Jones, WTP, Chapters 18.3-18.4, 22.1-22.3](#) \*\*\*

CSV, [15.1.1-15.1.3, pp.219-223: IS-LM](#). \*

E.Ilzetzki, E.Mendoza & C.Vegh, 2013, "[How Big \(Small?\) Are Fiscal Multipliers?](#)" *J.Mon.Ec.* 60, 2, 239-54. [NBER WP 16479](#) or [IMF WP 1152](#). [Summary](#), *NBER Digest*, 2011. \*\*

G.Chodorow-Reich, G.Gopinath, P.Mishra & A.Narayanan, 2020, "[Cash and the Economy: Evidence from India's Demonetization](#)," *QJE*, 135(1), pp.57-103. [NBER WP 25370](#). Summarized in [VoxEU, Aug. 2019](#).

"[A stimulating question: Can emerging economies now afford counter-cyclical policies?](#)" *The Economist*, Dec. 13, 2008, p. 90. \*

"[Argentine businesses battle to survive 40% interest rates](#)," *Financial Times*, June 11, 2018. \*

"[China's economists debate deficit monetization](#)," *The Economist*, May 30, 2020. \*

7. (9/23) Monetary Policy at the Zero Lower Bound

CSV, [21.1, pp. 324-328: ZLB](#) \*\*\*

Paul Krugman, "[The Shock of the Normal](#)," *NYT* blog, Jan. 7, 2017.

"[Emerging markets can use quantitative easing, too](#)," *Financial Times*, June 18, 2020. \*

"[Emerging markets' experiments with QE have not turned out too badly](#)," *Economist*, 10/31/2020. \*

8. (9/25) Reserve flows

Caves, Frankel & Jones, [WTP](#), Chapters 19.1, 22.4-22.7. \*\*\*

"[Hot money flows into Argentine peso spook President Macri](#)," *Financial Times*, May 27, 2016.

"[Swiss central bank blames strong franc as eurozone pulls away](#)," *Fin. Times*, June 16, 2017.

"[Turkish lira up 2% after central bank raises interest rates to keep inflation in check](#)," *FT*, 7/8/2018.

"[Why investors favour economically orthodox political strongmen: A guide to auto-technocracy](#)," *The Economist*, July 27, 2019. \*\*

9. (9/30) Mundell-Fleming with a floating exchange rate.

[WTP](#), Chapter 23.1-23.2 \*\*\*

"[Brazil's economy: Wild horses – A soaring currency...](#)" *The Economist*, Apr.23, 2011. \*\*

"[Why China has learned to relax about its currency](#)," *The Economist*, June 17, 2021.

10. (10/2) The model with perfect capital mobility; the Impossible Trinity

[WTP](#), Chapter 23.3-23.4. \*\*\*

Robert Mundell, 1963, "[Capital Mobility and Stabilization Policy under Fixed and Flexible Exchange Rates](#)," *Canadian J. Ec. & P.S.*, Nov.

"[Emerging markets are right to worry about capital flows](#)," Duvvuri Subbaro, *FT*, June 22, 2021.\*

"[Arab central banks are tagging along with America's rate rises](#)," *The Economist*. August 17, 2022. \*\*

#### IV. INFLATION

11. (10/7) Aggregate Demand, Aggregate Supply, and inflation

[WTP](#), Chapter 26.1 \*\*\*

Prachi Mishra & Peter Montiel, 2013, "[How Effective is Monetary Transmission in Low-income Countries? A Survey of the Empirical Evidence](#)," *Economic Systems*, vol.37, issue 2, June, 187–216. [IMF WP12143](#).

"[Some like it hot: Which emerging economies are at greatest risk of overheating?](#)" *The Economist*, July 2, 2011. \*

"[India lifts interest rate to curb price pressures](#)," *Financial Times*, June 7, 2018. \*

"[Why Erdogan's unorthodox Turkish economic experiment is not working](#)," *FT*, Dec. 21, 2021. \*

"[Monetary madness -- Turkey's bizarre economic experiment enters a new phase](#)," *The Economist*, June 1, 2023. \*\*\*

"[Emerging markets warned against swift rate cuts until inflation is under control](#)," *FT*, June 1, 2023.

"[Argentina's Milei targets monetary policy shift after reform bill win](#)," *Reuters*, June 28, 2024.

12. (10/9) The rational expectations attack on activist monetary policy

[CSV](#), 15.2, pp.224-229: [The Lucas Islands model](#). \*\*

"[Argentina's inflation problem: The price of cooking the books](#)," *The Economist*, Feb. 25, 2012.

"[Monetary policy in Africa has become more orthodox](#)," *The Economist*, 1/26/2019. \*\*

13. (10/11) Addressing dynamic inconsistency of monetary policy

[WTP](#), Chapters 26.3-26.4 \*\*\*

[CSV](#), 20.1, pp. 315-318: [Time inconsistency](#). \*

Kenneth Rogoff, 1985, "[The Optimal Degree of Commitment to an Intermediate Monetary Target](#)," *Quarterly Journal of Economics* 100, Nov., 1169-1189.

Kenneth Rogoff, 2003, "[Globalization and Disinflation](#)," *Economic Review*, Federal Reserve Bank of Kansas City, 88, no. 4, 4<sup>th</sup> quarter, pp. 45-78.

J. Frankel, 2011, "[Monetary Policy in Emerging Markets: A Survey](#)," *Handbook of Monetary Economics*, Ben Friedman & Michael Woodford, eds. (Elsevier), pp.1439-1520. [NBER WP 16125](#).

"[Nigeria's Central Bank Chief Warns on Autonomy](#)," *Financial Times*, June 7, 2012.

"[The desperation of independents: Stubbornly low interest rates may mean the end of central-bank autonomy](#)," *The Economist*, Aug, 6, 2016.

"[Recep Tayyip Erdogan sacks the head of Turkey's central bank](#)," *The Economist*, July 13, 2019. \*\*

14. (10/16)

**MIDTERM EXAM**

15. (10/21) Seigniorage and hyperinflation

[WTP](#), page 582: hyperinflation. \*\*\*

CSV, [19.3.1, pp.304: Inflation-tax Laffer curve](#). \*\*

Rudiger Dornbusch & Stanley Fischer, 1993, "[Moderate Inflation](#)," *W.Bk.Ec.Rev.* 7, 1, 1-44. .

Philip Cagan, 1956, "The Monetary Dynamics of Hyperinflation," in Milton Friedman, ed., *Studies in the Quantity Theory of Money* (Univ. of Chicago Press, Chicago), 25-117.

"[Venezuela – The half life of a currency](#): Hyperinflation is hard to grasp, harder still to tolerate," *The Economist*, Sept. 13, 2018.

"[Hyperinflation can end quickly, given the right sort of regime change](#)," *Economist*, Jan. 31, 2019. \*\*\*

"[Argentina's inflation nears highest level in 3 decades](#)," *Financial Times*, January 15, 2020.

"[Zimbabwe's secret money printing threatens IMF assistance](#)," *Financial Times*, Feb.27, 2020. \*\*

"[Sri Lanka shows the folly of fringe theories](#)," *Bloomberg / Washington Post*, April 18, 2022. \*

16. (10/23) Macroeconomics in China, 2004-24

J. Frankel, 2006, "[On the Yuan: The Choice Between Adjustment Under a Fixed Exchange Rate and Adjustment under a Flexible Rate](#)," *Understanding the Chinese Economy*, G.Illing, ed. (Oxford U.Press), 52, 2, 246-275; abstract; NBER [WP 11274](#). Condensed: "[On the Renminbi](#)," *CESifo Forum* 6, 3, 2005, pp.16-21. \*

S.J. Wei, Z. Xie & X. Zhang, 2017, "From 'made in China' to 'innovated in China': Necessity, prospect, and challenges," *Journal of Economic Perspectives*, 31, no.1, pp.49-70.

"[Politics hamper China's efforts to stimulate the economy](#)," *The Economist*, Sept. 28, 2023. \*\*

"[Can China's consumers save its economy?](#)" *The Economist*, Feb. 6, 2024. \*\*

**V. INTEGRATION OF GOODS MARKETS**

17. (10/30) Does arbitrage enforce Purchasing Power Parity?

Caves, Frankel and Jones, [WTP, 2007](#), Chapter 19.2-19.3. \*\*\*

Andrew Rose, 2000, "[One Money, One Market: Estimating the Effect of Common Currencies on Trade](#)," *Economic Policy* vol.15, no.30, April. \*\*

Charles Engel and John Rogers, 1996, "[How Wide is the Border?](#)" *American Economic Review* 86, 5, Dec., 1112-25. [NBER WP 4829](#).

18. (11/4 ) Do sticky prices give rise to PPP deviations?

Kenneth Rogoff, 1996, "[The Purchasing Power Parity Puzzle](#)," *J.Ec.Lit.*, 34, 2, June, 647-68. \*

Michael Mussa, 1986, "[Nominal Exchange Rate Regimes and the Behavior of Real Exchange Rates: Evidence and Implications](#)," *Carnegie Rochester Series on Public Policy* 25, 117-214.

Alan Taylor and Mark Taylor, 2004, "[The Purchasing Power Parity Debate](#)," *Journal of Economic Perspectives*, 18, 4, 135-158, Fall. \*

19. (11/6) Nontraded goods and the Balassa-Samuelson relationship  
 Bela Balassa, 1964, "[The Purchasing Power Parity Doctrine: A Reappraisal](#)," *JPE*, 72, 584-96.  
 Jose De Gregorio, Alberto Giovannini, and Holger Wolf, 1994, "[International Evidence on Tradables and Nontradables Inflation](#)," *European Economic Review* 38, no. 6, June, 1225-44.  
 "[What the Big Mac index says about the dollar and the dong](#)," July 23, 2021. \*\*  
 "[Dollar-euro parity may be justified](#)," *The Economist*, July 21, 2022. \*

(11/11 Veterans' Day)

## VI. SMALL OPEN ECONOMIES

20. (11/13) The Salter-Swan SOE model  
 Caves, Frankel and Jones, [WTP](#): Ch. 19.4, Appendix 19.C & Chapter 20. \*\*\*  
 W.E.G. Salter, 1959, "Internal and External Balance – The Role of Price and Expenditure Effects," *Economic Record*, August.  
 Trevor Swan, 1963, "Longer Run Problems of the Balance of Payments," in H.W.Arndt & W.M.Corden, eds., *The Australian Economy* (Cheshire, Melbourne).  
 Rudiger Dornbusch, 1973, "[Devaluation, Money and Nontraded Goods](#)," *AER*, Dec., 71-80.  
 Ariel Burstein, Martin Eichenbaum & Sergio Rebelo, 2005, "[Large Devaluations and the Real Exchange Rate](#)," *J. Political Economy* 113, no.4, August: 742-784. [NBER WP 10986](#).  
 C. Casas, F. Diez, [G. Gopinath](#), & P.O. Gourinchas, 2020, "[Dominant Currency Paradigm](#)," *American Economic Review*, 110 (3), 677-719. [NBER WP 22943](#).  
 Stephanie Schmitt-Grohé and Martín Uribe, 2021, "[Reviving the Salter-Swan Small Open Economy Model](#)," *Journal of International Economics* 130, May. NBER [WP 27447](#); [ISoM](#), 2020.  
 "[Latin American producers boosted by weaker domestic currencies](#)," *Fin. Times*, Dec. 11, 2019. \*\*
21. (11/18) Currency mismatches and contractionary devaluation  
[WTP, Ch. 24.6](#) \*\*\*  
 J.Frankel, 2005, "[Contractionary Currency Crashes in Developing Countries](#)," *IMF Staff Papers* [52, 2, 149-92](#). NBER [WP No.11508](#). \*\*  
 "[Financial indulgence](#)," *The Economist*, April 5, 2014.  
 "[Lira plunges as rates freeze raises fears over Erdogan's economic role](#)," *FT*, 7/25/2018. \*
22. (11/20) EM Sudden stops & managing outflows  
[WTP](#), Ch. 24.1-24.2, 24.7-24.7 \*\*\*  
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